



# Wharton Monthly Newsletter

## *Independent by Choice*

### Understanding Stock Market Indexes

No doubt you've seen headlines reporting that a particular stock index is up or down. But do you know what an index is, and how understanding the nuts and bolts of a specific index may be helpful to you?

An index is simply a way to measure and report the fluctuations of a pool of securities or a representative segment of a market. An index is developed by a company that sets specific criteria to determine which securities are included in the index based on factors such as a company's size or location, or the liquidity of its stock. For example, the S&P 500 is an index made up of mostly large-cap U.S.-based companies that Standard & Poor's considers to be leading representatives of a cross-section of industries.

The company that develops the index tracks the performance of its components and aggregates the data to produce a single figure that represents the index as a whole. Virtually every asset class is tracked by at least one index, but because of the size and variety of the stock market, there are more stock indexes than any other type. It's important to note that the performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index.

#### Comparing apples to oranges

Since indexes encompass a wide range of securities, it's important to know what segment of the market a particular index covers. For instance, a composite index follows a specific stock exchange. The Nasdaq Composite Index includes all the stocks listed on the Nasdaq market. Conversely, sector indexes track securities in a specific industry.

Even indexes that include the same securities may not operate in precisely the same way. Generally, indexes tend to be either price-weighted or market capitalization-weighted. If an index is price-weighted, such as the Dow Jones Industrial Average, the impact of each stock on the overall average is proportional to its price compared to other stocks in the index. With a price-weighted index, the highest-priced stocks

would have the most impact on the average. For example, a 1 percentage point drop in the price of a stock selling for \$80 per share would have more impact on the overall index's performance than a 1 percentage point drop in the price of a stock that had been selling for \$40 a share.

If an index is market capitalization-weighted or market value-weighted, such as the Nasdaq Composite Index or the S&P 500 Composite Index, the average of the index is adjusted to take into account the relative size of each company (its market cap) to reflect its importance to the index. Stocks with a larger market capitalization have a greater influence on how the index performs than stocks with a smaller market capitalization. For example, if the stock of a \$10 billion market-cap company drops by 1 percentage point, it will drag down the index's performance more than a 1 percentage point drop in the share price of a \$1 billion market-cap company.

Though an index adheres to a set of guidelines for selection of the securities it includes, the company that oversees the index generally reviews the security selection periodically and may make occasional changes. For example, some indexes may rebalance if an individual security grows so large that it dominates the index. Others have a limit on how much of the index can be devoted to a particular sector or industry, and may rebalance if the proportion gets skewed.

#### Indexes are worth watching

Stock indexes can provide valuable information for the individual investor. If checked regularly, an index can provide information that may help you stay abreast of how the stock market in general, or a particular segment of it, is faring. However, understanding the differences between indexes and how each one works will help you make better use of the information they provide. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

### Wharton Investment Consultants

On behalf of your Advisor from:  
Stuart Cameron, BEM  
Financial Advisor/Branch Manager  
5010 Canby Drive  
Wilmington, DE 19808-1102  
302-239-2111  
Fax: 888-438-6460  
sfcameron@ceteranetworks.com  
www.whartonic.com

Feel free to pass this newsletter to friends and family.

Make sure to visit our website, it is updated regularly. We have posted forms that are used regularly, you can download them and send them in.

#### May 2016

Understanding Stock Market Indexes

Four Lessons Grandparents and Grandchildren Can Learn Together

Nearing Retirement? Time to Get Focused

How long should I keep financial records?





## Four Lessons Grandparents and Grandchildren Can Learn Together



According to a Pew Research study, there are some significant differences between members of the Millennial generation (born 1981-96) and the Silent generation (born 1928-45).

- 68% of men and 63% of women in the Millennial generation are employed, compared with 78% of men and 38% of women in the Silent generation when they were young.
- 68% of Millennial generation members have never been married, compared with 32% of Silent generation members when they were the same age.
- 21% of men and 27% of women in the Millennial generation have at least a bachelor's degree, compared with only 12% of men and 7% of women in the Silent generation when they were young.

Source: "How Millennials today compare with their grandparents 50 years ago," Pew Research Center, Washington, D.C. (March 19, 2015), [pewresearch.org](http://pewresearch.org).

If you're a grandparent, maintaining a strong connection with your grandchildren is important, but that may become harder over the years as they leave for college or become busier building their careers and families. While they're just starting out financially, you have a lifetime of experience. Although you're at opposite ends of the spectrum, you have more in common than you think. Focusing on what you can learn together and what you can teach each other about financial matters may help you see that you're not that different after all.

### 1. Saving toward a financial goal

When your grandchildren were young, you may have encouraged them to save by giving them spare change for their piggy banks or slipping a check into their birthday cards. Now that they're older, they may have trouble saving for the future when they're focused on paying bills. They may want and need advice, but may not be comfortable asking for it. You're in a good position to share what experience has taught you about balancing priorities, which may include saving for short-term goals such as a home down payment and long-term goals such as retirement. You'll also learn something about what's important to them in the process.

You may even be willing and able to give money to your grandchildren to help them target their goals. While you can generally give up to \$14,000 per person per year without being subject to gift tax rules, you may want to explore the idea of offering matching funds instead of making an outright gift. For example, for every dollar your grandchild is able to save toward a specific goal, you match it, up to whatever limit you decide to set. But avoid giving too much. No matter how generous you want to be, you should prioritize your own retirement.

### 2. Weathering market ups and downs

Your grandchildren are just starting out as investors, while you have likely been in the market for many years and lived through more than one challenging economic climate. When you're constantly barraged by market news, it's easy to become too focused on short-term results; however, the longer-term picture is also important. As the market goes up, novice investors may become overly enthusiastic, but when the market goes down they may become overly discouraged, which can lead to poor decisions about buying and selling. Sharing your perspective on the historical performance of the market and your own portfolio may help

them learn to avoid making decisions based on emotion. Focusing on fundamentals such as asset allocation, diversification, and tolerance for risk can remind you both of the wisdom of having a plan in place to help you weather stormy market conditions.

**Note:** *Asset allocation and diversification do not guarantee a profit or protect against investment loss. Past performance is no guarantee of future results.*

### 3. Using technology wisely

Some people avoid the newest technology because they think the learning curve will be steep. That's where your grandchildren can help. With their intuitive understanding of technology, they can introduce you to the latest and greatest financial apps and opportunities, including those that may help you manage your financial accounts online, pay your bills, track investments, and stay in touch with professionals.

Unfortunately, as the use of technology has grown, so have scams that target individuals young and old. Your grandchildren might know a lot about using technology, but you have the experience to know that even financially savvy individuals are vulnerable. Consider making a pact with your grandchildren that if you are asked for financial information over the phone, via email, or online (including account or Social Security numbers); asked to invest in something that promises fast profits; or contacted by a person or business asking for money, you will discuss it with each other and with a trusted professional before taking action.

### 4. Giving back

Another thing you and your grandchildren might have in common is that you want to make the world a better place.

Perhaps you are even passionate about the same special causes. If you live in the same area, you might be able to volunteer together in your community, using your time and talents to improve the lives of others. But if not, there are plenty of ways you can give back together. For example, you might donate to a favorite charity, or even find the time to take a "volunteer vacation." Traveling together can be an enjoyable way for you and your grandchildren to bond while you meet other people across the country or globe who share your enthusiasm. Many vacations don't require experience, just a willingness to help--and learn--something you and your grandchildren can do together.



## Nearing Retirement? Time to Get Focused



*A financial professional can help you estimate how much your retirement accounts may provide on a monthly basis. Your employer may also offer tools to help. Keep in mind, however, that neither working with a financial professional nor using employer-sponsored tools can guarantee financial success.*

If you're within 10 years of retirement, you've probably spent some time thinking about this major life change. The transition to retirement can seem a bit daunting, even overwhelming. If you find yourself wondering where to begin, the following points may help you focus.

### Reassess your living expenses

A step you will probably take several times between now and retirement--and maybe several more times thereafter--is thinking about how your living expenses could or should change. For example, while commuting and dry cleaning costs may decrease, other budget items such as travel and health care may rise. Try to estimate what your monthly expense budget will look like in the first few years after you stop working. And then continue to reassess this budget as your vision of retirement becomes reality.

### Consider all your income sources

Next, review all your possible sources of income. Chances are you have an employer-sponsored retirement plan and maybe an IRA or two. Try to estimate how much they could provide on a monthly basis. If you are married, be sure to include your spouse's retirement accounts as well. If your employer provides a traditional pension plan, contact the plan administrator for an estimate of your monthly benefit amount.

Do you have rental income? Be sure to include that in your calculations. Is there a chance you may continue working in some capacity? Often retirees find that they are able to consult, turn a hobby into an income source, or work part-time. Such income can provide a valuable cushion that helps retirees postpone tapping their investment accounts, giving them more time to potentially grow.

Finally, don't forget Social Security. You can get an estimate of your retirement benefit at the Social Security Administration's website, [ssa.gov](http://ssa.gov). You can also sign up for a *my* Social Security account to view your online Social Security Statement, which contains a detailed record of your earnings and estimates of retirement, survivor, and disability benefits.

### Manage taxes

As you think about your income strategy, also consider ways to help minimize taxes in retirement. Would it be better to tap taxable or tax-deferred accounts first? Would part-time work result in taxable Social Security benefits? What about state and local taxes? A qualified tax professional can help you develop an appropriate strategy.

### Pay off debt, power up your savings

Once you have an idea of what your possible expenses and income look like, it's time to bring your attention back to the here and now. Draw up a plan to pay off debt and power up your retirement savings before you retire.

- **Why pay off debt?** Entering retirement debt-free--including paying off your mortgage--will put you in a position to modify your monthly expenses in retirement if the need arises. On the other hand, entering retirement with mortgage, loan, and credit card balances will put you at the mercy of those monthly payments. You'll have less of an opportunity to scale back your spending if necessary.
- **Why power up your savings?** In these final few years before retirement, you're likely to be earning the highest salary of your career. Why not save and invest as much as you can in your employer-sponsored retirement savings plan and/or your IRAs? Aim for the maximum allowable contributions. And remember, if you're 50 or older, you can take advantage of catch-up contributions, which allow you to contribute an additional \$6,000 to your employer-sponsored plan and an extra \$1,000 to your IRA in 2016.

### Account for health care

Finally, health care should get special attention as you plan the transition to retirement. As you age, the portion of your budget consumed by health-related costs will likely increase. Although Medicare will cover a portion of your medical costs, you'll still have deductibles, copayments, and coinsurance. Unless you're prepared to pay for these costs out of pocket, you may want to purchase a supplemental insurance policy.

In 2015, the Employee Benefit Research Institute reported that the average 65-year-old married couple would need \$213,000 in savings to have at least a 75% chance of meeting their insurance premiums and out-of-pocket health care costs in retirement. And that doesn't include the cost of long-term care, which Medicare does not cover and can vary substantially depending on where you live. For this reason, you might consider a long-term care insurance policy.

These are just some of the factors to consider as you prepare to transition into retirement. Breaking the bigger picture into smaller categories may help the process seem a little less daunting.

## Wharton Investment Consultants

On behalf of your Advisor from:  
 Stuart Cameron, BEM  
 Financial Advisor/Branch Manager  
 5010 Canby Drive  
 Wilmington, DE 19808-1102  
 302-239-2111  
 Fax: 888-438-6460  
 sfcameron@ceteranetworks.com  
 www.whartonic.com

### IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Securities and advisory services offered through Cetera Advisor Networks LLC, member FINRA/SIPC. Cetera is under separate ownership from any other named entity.

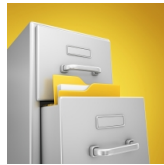


## How long should I keep financial records?

There's a fine line between keeping financial records for a reasonable period of time and becoming a pack rat. A general rule of thumb is to keep financial records only as long as necessary. For example, you may want to keep ATM receipts only temporarily, until you've reconciled them with your bank statement. But if a document provides legal support and/or is hard to replace, you'll want to keep it for a longer period or even indefinitely. It's ultimately up to you to determine which records you should keep on hand and for how long, but here's a suggested timetable for some common documents.

One year or less	More than one year	Indefinitely
Bank or credit union statements	Tax returns and documentation*	Birth, death, and marriage certificates
Credit card statements	Mortgage contracts and documentation	Adoption papers
Utility bills	Property appraisals	Citizenship papers
Annual insurance policies	Annual retirement and investment statements	Military discharge papers
Paycheck stubs	Receipts for major purchases and home improvements	Social Security card

\*The IRS requires taxpayers to keep records that support income, deductions, and credits shown on their income tax returns until the period of limitations for that return runs out—generally three to seven years, depending on the circumstances. Visit [irs.gov](http://irs.gov) or consult your tax professional for information related to your specific situation.



## What are some tips for organizing financial records?

Organizing your financial records is a cyclical process rather than a one-time event. You'll need to set up a system that helps you organize incoming documents and maintain existing files so that you can easily find what you need. Here are a few tips.

**Create your system:** Where you should keep your records and documents depends on how quickly you want to be able to access them, how long you plan to keep them, and the number and type of records you have. A simple set of labeled folders in a file cabinet may be fine, but electronic storage is another option for certain records if space is tight or if you generally choose to receive and view records online. No matter which storage option(s) you choose, try to keep your records in a central location.

**File away:** If you receive financial statements through the mail, set up a collection point such as a folder or a basket. Open and read what you receive, and decide whether you can file it or discard it. If you receive statements electronically, pay attention to any notifications you receive. Once you get in a routine, you may

find that keeping your records organized takes only a few minutes each week.

**Purge routinely:** Keeping your financial records in order can be even more challenging than organizing them in the first place. Let the phrase "out with the old, in with the new" be your guide. For example, when you get this year's auto policy, discard last year's. When you receive an annual investment statement, discard the monthly or quarterly statements you've been keeping. It's a good idea to do a sweep of your files at least once a year to keep your filing system on track (doing this at the same time each year may be helpful).

**Think safety:** Don't just throw hard copies of financial paperwork in the trash. To protect sensitive information, invest in a good quality shredder and destroy any document that contains account numbers, Social Security numbers, or other personal information. If you're storing your records online, make sure your data is encrypted. Use strong passwords, and back up any records that you store on your computer.